



Project Overview

Michigan's policy and business leaders, advocacy groups, and stakeholders are currently engaged in dialogues about future energy policy in Michigan. At the same time, the business landscape for electric utilities is shifting, due to factors like emerging technologies, changing economics of different fuel sources, state and federal policies, aging infrastructure, and regional wholesale electric market influences. Adapting to this shifting business landscape is challenging for utilities, primarily because the current utility regulatory model is based on new plant construction and electricity sales (which are being eroded due to state and federal policies and new technology) and because of deficiencies in the existing electric delivery infrastructure (which limit integration of new technologies). To address these challenges and allow for successful implementation of the state's new energy policy, there will need to be enhanced coordination, thoughtful planning, and appropriate implementation of regulatory and utility ratemaking models.

In response, the Michigan Energy Office, with grant support from the U.S. Department of Energy, is working to create a stakeholder- and research-driven roadmap that aligns electric utility business interests and customer behavior with public policy goals. The project is directed by a multiagency steering committee, informed by a multisector stakeholder group, and supported with internal agency staff and external partners. Together, this team will review Michigan's energy policy goals, review current relevant research, and explore new and innovative electric utility ratemaking and rate design approaches to achieve those goals.

The roadmap process is divided into three phases: baselining, visioning, and implementation.



Phase I: Baseline Assessment

The baseline assessment will serve as a critical foundation for multiagency coordination, stakeholder engagement, and overall roadmap development. During Phase 1, which began in January 2015, the steering committee determined the following information was necessary to serve inform the process:

- ❖ Michigan's current energy policy landscape and regulatory framework

- ❖ Michigan electric utilities' performance on key and relevant indicators
- ❖ Overview of the current utility business model
- ❖ Factors, risks, and opportunities that could impact implementation of such policy goals and requirements
- ❖ Potential innovative regulatory and rate design options to policy implementation by aligning utilities and customers with the policy goals and requirements

The baseline assessment was completed in May 2015. All of these research elements were compiled into a comprehensive baseline research report, which was reviewed and approved by the steering committee.

Phase II: Vision for Future Ratemaking and Rate Design Approaches

Phase II will begin in August 2015 with the first meeting of the multisector stakeholder group, where members will be “grounded” in the baseline information to establish a common frame of reference. The stakeholders will then develop a vision and guiding principles for any changes to the regulatory model or ratemaking approaches that can serve as a “yardstick” as they debate, design, and implement any changes. The steering committee will review and approve the vision.

Phase III: Action/Implementation Plan

Phase III is expected to begin in October 2015. The stakeholder group will continue to develop the implementation plan. It will focus on identifying and addressing key issues and desired outcomes associated with potential changes in the regulatory model and rate design. That is, we will work through the process of exploring and defining the details of different regulatory approaches and rate designs that Michigan could use to help implement new energy policy goals. Because this process can be fairly nuanced, we expect the stakeholder group to break into subgroups composed of experts on the issues being addressed. This effort is not intended to be Michigan's exclusive method for policy implementation but will help ensure that electric utility regulation is not a barrier to implementation and identify approaches that can support the energy industry's ability to adapt to rapid changes.

The results of the stakeholder engagement process will be reported to the steering committee throughout all phases, but at the end of Phase III, a policy call will be made by state decision-makers on whether to implement recommended changes to ratemaking and rate design and, if so, when and how to make this transition.